Setting the Course
Financial Improvement Program (FIP) Update

Presented by:

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Agenda

Today's session will cover the following topics:

- Review of the FIP Structure and Execution Approach
- FIP Progress to Date
- What's Next for the FIP
- FIP Management Tool

The FIP efforts are organized by organization and by Financial Statement line items, each with a different, but connected, mission.

Horizontal

Focus Areas
FBWT
General PP&E
- Real Property
- Military
- Equipment

Environmental Liabilities

Other Areas
A/R
Cash and Other Monetary
Other Assets
A/P
Debt
Environmental Liabilities
Other Liabilities
Appropriations Received
Obligations Incurred

Line Items

Ojective: The Auditability of Financial Statements, Financial Statement Line Items, and Financial Processes across the DON

DON Program Management

- Oversee DON FIP efforts
- Interface to OSD FIAR
- Manage budget & funding
- Provide FIP guidance and prioritization
- Provide FIP tools and infrastructure
- Review Command deliverables
- Coordinate & facilitate business process change

Vertical

Systems & Acquisition	**NAVAIR NAVSEA SPAWAR SSP NAVSUP ONR**
Fleets & Personnel	**LANTFLT PACFLT BUPERS NETC RESFOR**
Infrastructure	**NAVFAC CNIC**
Admin & Others	**FSA AAUSN ONI NSMA USMC**

Organizations

Objective: The Auditability of Financial Statements and Financial Processes at Navy Commands, Marine Corps, and DFAS

Focus area execution is centered in a few Commands with direct Program Office oversight, while other Command efforts are decentralized.

Original Focus Areas

- Formed integrated project teams
- Engage lead functional organizations (including executive leadership)
- FMO is the advocate

- Focused on Deficiency Correction
- Generating process documentation for validation packages

Focus Area	Lead
Real Property	NAVFAC, CNIC
Env. Liabilities-DERP/Non-DERP	NAVFAC
Env. Liabilities-Weapons Systems	NAVSEA
FBWT	DFAS CL, FMO
Military Equipment	PEO PMs

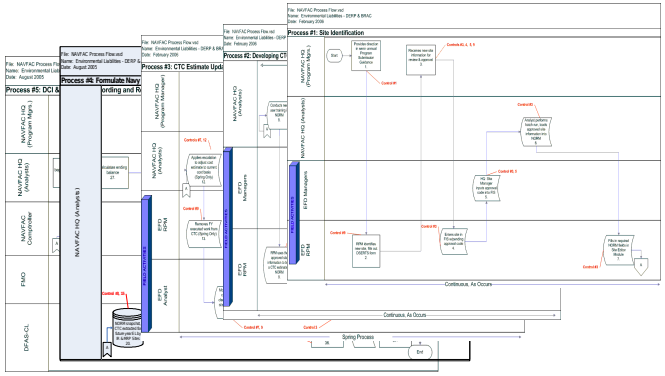
Command FIPs

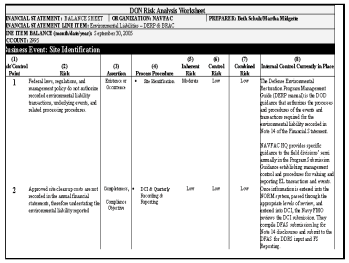
- Established Command FIPs with IDIQ Contract support
- Emphasis on discovery in non-focus areas
- Outcomes will be documented process and verification of audit readiness or deficiency identification

The FIP Validation (Discovery) approach enables the documentation of processes and discovery of material weaknesses. It also supports our compliance with A-123 Financial Reporting requirements.

FIP Validation Guidance

Define Organization(s)
Document Business Processes
Define Financial Statement Impact
Define Risk of Misstatement
Define Internal Controls
Evaluate Internal Controls
Document Findings/Deficiencies

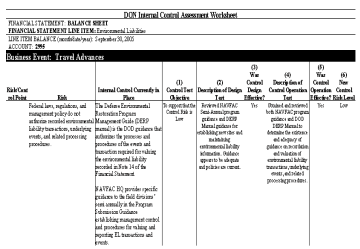




DON Risk Analysis Worksheet

FINANCIAL STATEMENT / BALANCE SHEET | ORGANIZATION: NAVFAC | PREPARED: Bob Schuh/Martha Widgets
FINANCIAL STATEMENT LINE ITEM: Environmental Liabilities – DERP & BRAC
PRE ITEM BALANCE (month/date/year): September 30, 2005
ACCOUNT: 2960
Business Event: Site Identification

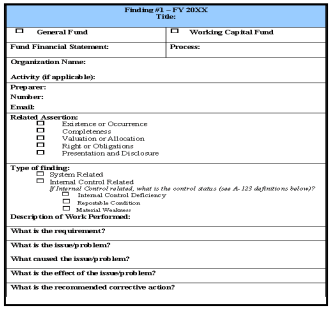
(1) Id/Control Point	(2) Risk	(3) Assertion	(4) Process Procedure	(5) Inherent Risk	(6) Control Risk	(7) Combined Risk	(8) Internal Control Currently in Place
1	Federal laws, regulations, and management policy do not authorize recorded environmental liability transactions, misdefining events, and related processing procedures.	Existence or Occurrence	• Site Identification	Moderate	Low	Low	The Defense Environmental Restoration Program Management Guide (DERP manual) is the DOD guidance that authorizes the processes and procedures of the events and transaction required for the environmental liability recorded in Note 14 of the Financial Statement NAVFAC HQ provides specific guidance to the field divisions' semi-annually on the Program Submission Guidance which listing management control and procedures for valuing and reporting EL transactions and events. Cross information is entered into the ROEM system, passed through the appropriate levels of review, and entered into DCI, the Navy FIRO system the DCI submission. They compile DFAS' information log the Note 14 disclosures and submit to the DFAS for DDRI input and FS Reporting
2	Approved site clearing costs are not recorded in the annual financial statement, therefore understating the environmental liability reported	Completeness, Compliance Objective	• DCI-8 Quarterly Recording & Reporting	Low	Low	Low	



DON Internal Control Assessment Worksheet

FINANCIAL STATEMENT: BALANCE SHEET
FINANCIAL STATEMENT LINE ITEM: Environmental Liabilities
LINE ITEM BALANCE (month/date/year): September 30, 2005
ACCOUNT: 2960
Business Event: Travel Advances

Risk/Cost Point	Risk	Internal Control Currently in Place	(1) Control Test Objective	(2) Description of Design Test	(3) Was Control Design Effective?	(4) Description of Control Operation Test	(5) Was Control Operation Effective?	(6) Risk Level
	Federal laws, regulations, and management policy do not authorize recorded environmental liability transactions, misdefining events, and related processing procedures.	The Defense Environmental Restoration Program Management Guide (DERP manual) is the DOD guidance that authorizes the processes and procedures of the events and transaction required for valuing the environmental liability recorded in Note 14 of the Financial Statement NAVFAC HQ provides specific guidance to the field divisions' semi-annually on the Program Submission Guidance which listing management control and procedures for valuing and reporting EL transactions and events.	To support that the Control Risk is Low	Reviews FAMPAC Semi-Annual program guidance and DERP Manual guidance for establishing sort the and maintaining environmental liability information. Balance appears to be adequate and policies are current.	No	Evaluated and reviewed both NAVFAC program guidance and DOD DERP Manuals to determine the existence and adequacy of guidance on record taken and valuation of environmental liability transactions, underlying events, and related processing procedures.	No	Low



Finding #1 – FY 20XX
Title:

☐ General Fund ☐ Working Capital Fund

Fund Financial Statement: Process:

Organization Name:

Activity (if applicable):

Preparer:
Number:
Email:

Related Assertions:
☐ Existence or Occurrence
☐ Completeness
☐ Valuation or Allocation
☐ Right or Obligation
☐ Presentation and Disclosure

Type of finding:
☐ System Related
☐ Internal Control Related
If Internal Control related, what is the control status (see A-123 definitions below)?
☐ Internal Control Deficiency
☐ Reportable Condition
☐ Material Weakness

Description of Work Performed:

What is the requirement?

What is the issue/problem?

What caused the issue/problem?

What is the effect of the issue/problem?

What is the recommended corrective action?

Process Documentation | **Risk Analysis** | **Internal Control Analysis** | **Findings**

Continuous Monitoring

Outcomes

Corrective Action, Process Improvement & Standardization, or Audit Preparedness

Known deficiencies and those deficiencies identified in discovery will be evaluated for their broader impact and addressed based on business case justification.

An initial list of deficiencies came from audit reports and commonly known problems.

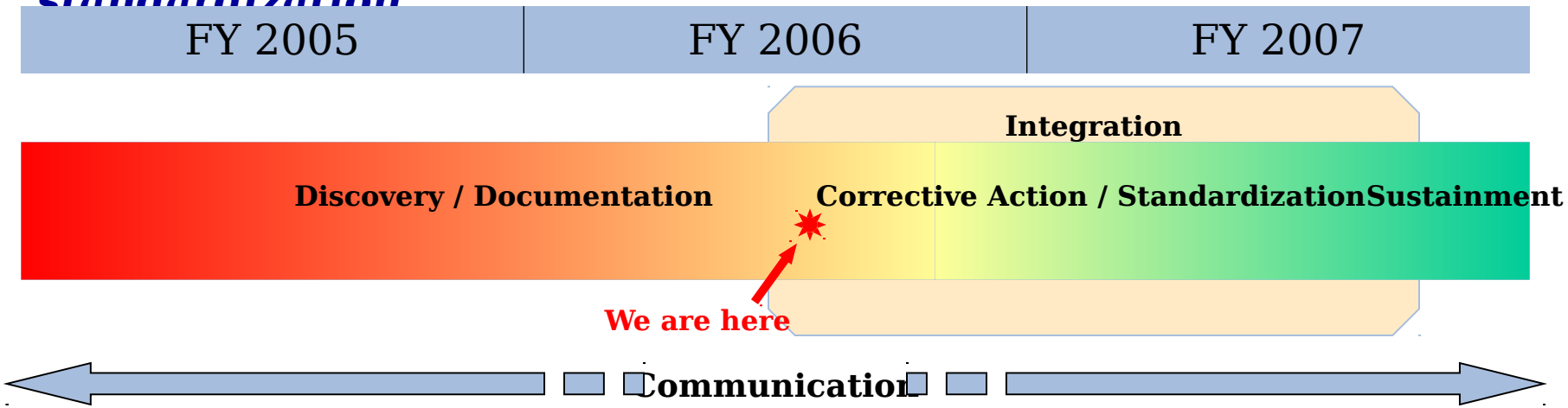
The discovery process will add to our list of known deficiencies:

- Central evaluation and categorization of deficiencies
- Move to defining deficiencies in relation to processes and then linking to line items
- Identifying deficiencies/findings that have an enterprise wide impact
  - Error in STARS FL posting logic
- Identifying deficiencies/findings that can be corrected at the Command level
  - Lack of written operating procedures
  - Not maintaining required documentation
  - Not performing required control procedures on a regular basis

Correction of deficiencies will be based on business case justification:

- Most effective use of limited funding
- Approach and scope of proposed effort and requested resources
- Relationship to transition efforts of the organization, i.e. Navy ERP, BTA

Efforts, as we move forward, will begin to shift focus from discovery to integration to corrective action and standardization



Discovery

- Discovery section based on dedicated efforts inside of focus areas or Command VPMP
- Lead organizations identified to document particular processes.
- Additional organizations will perform discovery based on the documentation provided by the lead organizations

Integration

Standardization/Corrective Action

- Corrective actions to address known deficiencies are executed.
- Material deficiencies discovered in process analysis are corrected.
- Corrective action plans for unique Command deficiencies are executed at the Command level
- Central teams facilitate the execution of global plans for Enterprise deficiencies
- Action is taken to standardize & improve processes.

We are working on efforts to integrate all the work that the Commands and contractors are doing in Discovery.

Knowledge Management

- **This integration effort will facilitate communication and sharing across the project.**
- **The effort will also lead facilitated sessions that will address topics of common interest across the Commands**

Command Level Statements

- **Commands have produced Command Level Statements based on the trial balances from their core accounting systems.**
- **This integration effort will work to automate the Command Level Statement generation and analyze the information provided for anomalies.**

Information Sharing

Deficiency Remediation

- **Deficiencies will be identified in the discovery phase of the project.**
- **This integration effort will review, analyze, and evaluate deficiencies to help facilitate corrective action solutions.**
- **Deficiencies unique to a Command will be addressed by that Command; Deficiencies that are Enterprise issues will be addressed by through a central effort.**

Audit Readiness

- **This integration effort will review the submitted Validation Packages to evaluate compliance with guidance and readiness for assertion**
- **The effort will produce a Mock Audit Plan to help align DON's expectations for financial statement audits.**
- **The effort will also produce a source document catalogue**

The Program is planning Facilitated Sessions to share information and lessons learned across FIP participants leading to decisions of next steps.

- Facilitated Sessions
  - FMO will host Facilitated Sessions that will bring together subject matter experts and key stakeholders for a working session on a topic of interest.
  - FMO expects to begin the sessions in the next two months
  - Discussion topics including:
    - Operations Level Guidance (to replace NAVCOMPT Manual) and Official Memorandum
    - Accounts Receivable Standardization
    - Command Level Statements
    - Transportation of Things
    - Accrual Processes
    - Reimbursable Order Processes
    - MILSTRIPS
    - Undistributed Disbursements and Collections
  - Expected Outcomes:
    - Improved communication across FIP participants
    - Common understanding of problems
    - Definition of effort and strategy for way ahead

Initial benefits have been realized from the FIP effort. We anticipate more benefits will be derived from our discovery and corrective action efforts.

- GF Investments and WCF Debt asserted to OUSD(C) as ready for audit.
- MPN Out of Service Debt
  - BUPERS teams have identified that Out of Service debt managed at DFAS Denver was improperly sending collections to Treasury as opposed to returning it to the DON. This will represent an $53 million recovery.
- Weapons Systems Environmental Liabilities
  - NAVSEA has re-engineered their model for calculating disposal liabilities for ships and submarines. This more detailed analysis will provide a more accurate estimate for liabilities budget formulation ($707.9M to $365.2M).
- Non-DERP Environmental Liabilities
  - DON has invested $20 million to identify our expected liabilities for Non-DERP. NAVFAC teams have completed their initial analysis and identified the complete universe of Non-DERP Environmental Liabilities sites.
- Marine Corps
  - Marine Corps has taken a leadership role through their Financial Improvement Initiative. The Marine Corps expects to assert their entire financial statement by 30 September 2007.

The FIP Management Tool facilitates distribution of information across all participants in the Program.

Department of Navy
FIP Management Tool

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- PROGRAM INFORMATION
- PROJECTS AND PLANS
- ISSUES
- DEFICIENCIES
- STATUS REPORTS
- VALIDATION
- KNOWLEDGE MANAGEMENT
- FUNDING

Current User
FIP ADMIN

Organization
FMO

Current Date
April 11, 2006

The DON FIP Management Tool is a web-based application that enables the distribution and collection of information related to the FIP efforts in improving DON financial management processes and obtaining a clean financial statement audit opinion.

FIP Bulletin

The redesigned FIP MT is designed to allow for easier access to information. A **cheat sheet** and **PowerPoint presentation** are available to explain the changes to the site.

Questions about the site? Click on the Feedback link above or send an e-mail to fipadministrator@navy.mil.